

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter Of:

AN ADJUSTMENT OF RATES OF)	
THE SEWAGE TREATMENT PLANT)	CASE NO. 8103
SERVING THE SILVER HEIGHTS)	
SEWER CONSTRUCTION DISTRICT)	

O R D E R

On December 29, 1980, Silver Heights Sewer Construction District ("Applicant") filed an application with the Commission (formerly the Utility Regulatory Commission), seeking permission to raise the rates charged to the customers served by the utility. In order to determine the reasonableness of the requested rates, the Commission scheduled a public hearing for March 31, 1981, and required the Applicant to notify its customers of the date and location of the hearing and of the proposed rates in manners prescribed by the Commission's rules and regulations. The Applicant adhered to the notification requirements and a hearing was held as scheduled with the Attorney General's Division of Consumer Intervention, the only party to intervene, being present and participating in the proceedings. Moreover, a petition circulated among the residents of Silver Heights, protesting the proposed rate increase, was entered into the record.

The Applicant has responded to all of the information requests. The record with respect to the increased rate request is now considered fully submitted for final determination by this Commission.

Test Period

The Applicant proposed and the Commission accepted the twelve-month period ending September 30, 1980, as the test period in this matter.

Revenues and Expenses

The Applicant submitted its actual income statement for the twelve-month period ending September 30, 1980, and, moreover, proposed several pro forma adjustments to actual operations. The Commission is of the opinion that the adjustments are proper and has accepted them for rate-making purposes with the following exceptions:

- (1) Margin Requirements - To arrive at a revenue requirement, the Applicant proposed a "margin requirement" of \$11,928 to be treated as an expense. The method used by this Commission to determine revenue requirements automatically takes into account a margin requirement in the debt service coverage calculation. Therefore, the margin requirement in the form presented by the Applicant is disallowed.
- (2) Supplies - Applicant proposed an adjustment to supplies in the amount of \$129. This adjustment was based on an inflation factor which is not known or measurable. Therefore, the Commission has disallowed this adjustment as it is merely a projection and is inconsistent with Commission policy.

- (3) Depreciation - The Applicant has failed to make provisions for depreciation of plant and equipment as required by the Uniform System of Accounts for Class C and D Sewer Utilities. Under the cost recovery concept, it is essential for the utility to recover the cost of the plant by spreading that cost over the useful life of the facility. Therefore, the Commission is of the opinion that the Applicant shall prospectively expense depreciation on a yearly basis. The Commission has adjusted Applicant's operations by \$8,600 to allow depreciation expense calculated as two percent of gross plant less contributions in aid of construction.
- (4) Maintenance of Treatment Plant - While the Commission will allow the Applicant's proposed adjustment, this adjustment is allowed solely for the purpose of renovating the poorly maintained plant to conform to the health and safety guidelines governing the operation of the plant. Moreover, it will be the Applicant's present Commissioner's responsibility to insure that the facility is operated in such a manner as to comply with the standards and guidelines prescribed by the Louisville Department of Public Health and that the accounting records be maintained in accordance with the Uniform System of Accounts for Class C and D Sewer Utilities.

The Applicant's test period operations have been adjusted as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$ 78,766	\$ -0-	\$ 78,766
Operating Expenses	64,282	35,255	99,537
Net Operating Income	<u>\$ 14,484</u>	<u>\$(35,255)</u>	<u>\$(20,771)</u>

Return

The Commission is of the opinion that the adjusted operating loss is clearly unjust and unreasonable. Further, the Commission is of the opinion that the proposed rates should be approved as the revenues of \$123,507 generated by the proposed rates will improve the Applicant's financial position. However, the Commission is concerned that while the rates requested by the Applicant and approved herein will improve its financial position, they are, nevertheless, inadequate to produce a debt service coverage of 1.2 times, or the coverage normally found to be fair, just and reasonable to provide a reasonable return necessary for equity growth and compliance with the provisions set forth in the Applicant's bond ordinance. Therefore, the Commission strongly encourages the Applicant to reassess its financial position and take the necessary steps to insure its financial stability and compliance with its bond ordinance requirements.

Summary

The Commission, after careful consideration of the evidence of record and being fully advised, is of the opinion and finds that:

(1) The rates prescribed and set forth in Appendix A are the fair, just and reasonable rates to charge for sewer service rendered by the Applicant in that they should improve the Applicant's financial position.

(2) The Applicant should immediately establish and maintain accounting records in accordance with the Uniform System of Accounts for Class C and D Sewer Utilities.

(3) The Applicant should implement a program of plant repair and renovation in order to comply with the guidelines prescribed by this Commission and the Louisville Department of Public Health.

IT IS THEREFORE ORDERED that the rates sought by the Applicant are hereby approved and set forth in Appendix A to this Order to become effective for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant shall immediately establish and maintain accounting records in accordance with the Uniform System of Accounts for Class C and D Sewer Utilities.

IT IS FURTHER ORDERED that the Applicant shall begin a program of plant repair and renovation to enable it to comply with the safety and health guidelines prescribed by this Commission and the Louisville Department of Public Health.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within 30 days from the date of this Order, its revised tariff sheet setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 27th day of August, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Katherine Randall
Vice Chairman

Jim Hargrave
Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8103 DATED AUGUST 27, 1981

The following rates are prescribed for the customers in the area served by the Silver Heights Sewer Construction District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the date of this Order.

Sewer Service Rates

<u>Customer Category</u>	<u>Monthly Rates</u>
Single Family Residence	\$ 12.19
Apartments: 1 Bedroom	6.09
2 Bedroom	9.14
3 Bedroom	12.19
Commercial	18.28*
School	1.01**

* Plus \$1.00 per 1,000 gallons of water usage

**Per 1,000 gallons of water usage.